

December 17, 2008, 4:22 pm

Afternoon Reading: Madoff and Getting Metaphysical About Funds of Funds

Posted by Stephen Grocer

The spotlight in the Bernard Madoff's alleged \$50 billion Ponzi scheme has now turned to the individuals and businesses that recommended investing with him.

Front and center among those recommending Madoff to investors were the funds of funds. And their role in the alleged scam has **Barry Ritholtz** over at **The Big Picture** [asking](#): What is the actual purpose of Fund of Funds?

In theory at least, funds of funds should do the due diligence that ordinary investors can't and run the asset allocation.

"Now ask yourself this: How many FoF actually do all that? How many FoF did that (competently) for Madoffs?"

ClusterStock's John Carney [believes](#) it is improbable that funds of funds were doing lots of due diligence. The reason for his doubts are simple. Few hedge funds would be willing to open up their books to funds of funds.

So then what is point of funds of funds? Writes Carney:

"What investors are buying when the hand over money to a fund of funds is the opportunity to get in on the returns of some of the biggest names in the hedge fund world with a relatively small investment."

While the list of victims of the scam continues to expand, due diligence seems to have saved at least one group of investors—the institutional investor. Fortune's Nicholas Varchaver interviews James Hedges IV of LJH Global Investments, a boutique firm that invests in hedge funds and private equity for high-net-worth families, who argues that "any sophisticated entity that actually did its homework would have seen the warning signs."

Madoff Tidbits

- U.S. Attorney General Michael Mukasey's own synagogue was ripped off by Madoff's Ponzi scheme, [writes Cityfile](#)
- **Portfolio.com's Felix Salmon** [on investing and charities](#).

Tidbits

- "Comp day" has finally arrived at Goldman, [writes Carney](#).
- Citigroup is reportedly preparing to merge two big divisions—investment banking and corporate banking, [reports Dealscape](#).
- Also from **ClusterStock**, **Henry Blodget** [asks](#) should the star endowment manager have structured Yale's portfolio to be less volatile and more liquid (and have a lower return)?
- [From VoxEU](#): What can be learned from the banking crisis.

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As Madoff finds his long, long way home, he will open doors into the Wall Street underbelly that has seen little light of day.

MADOFF IS NOT SO UNIQUE - OVERSIGHT IS IMPOSSIBLE

The corruption trench is deep and wide, much requires cleaning-up on Wall Street...

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<http://pacificgatepost.blogspot.com/2008/12/is-madoff-really-anomaly.html>

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Comment by James Raider - December 17, 2008 at [5:46 pm](#)

It looks like the days of INSANE compensation for the so-called "Wall Street whiz kids" is OVER. Looks like the "grave train" for Wall Street snake oil salesmen is coming to an end.

The whole world is going to be MUCH more skeptical about the "advice" that comes out of Wall Street from now on. Wall Street better be ready for a LOT more scrutiny from independent auditors, attorneys and regulators. No whining about it! Because of 2008, Wall Street EARNED these audits and investigations that are coming in the years ahead.

Forget regular street crime ... America needs to have more WHITE COLLAR "cops on the beat"! 50,000+ of them if necessary. Gotta have them to make sure Wall Street schemers don't throw America and the WHOLE WORLD into chaos.

We've seen this movie before. The insanity on Wall Street of the 1920s led to the Great Depression and the rise of evil dictators like Hitler in the 1930s. We need a VERY competent, very strict white collar crime fighting department to make sure Wall Street doesn't set off any more "weapons of financial mass destruction" like Warren Buffett said back in 2003. He should have sounded the alarm a LOT louder and raised hell about it ... all over New York and Washington, DC.

Comment by Steve - December 17, 2008 at [7:59 pm](#)

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Comment by Wall Street Journal Reader - December 17, 2008 at [8:07 pm](#)

How did it happen ? No control in placed ?

Comment by Philip - December 18, 2008 at [2:58 am](#)

FoF - what a joke. Using Buffet's terminology, they are nothing but zero-value added intermediaries. In this case it was a negative-value-added intermediary. Since an FoF takes fees and then really adds no value as they have no idea of the stocks and strategies that are being used, they are simply snake oil salespersons. I have no sympathy for those who lost money (except for the charities). These are rich people who got duped and frankly the rest of the country do not care. We have our own problems and if a rich person goes broke, welcome to our world.

Comment by Joe - December 18, 2008 at [11:32 am](#)